Seat No.: ________ Enrolment No.___________

GUJARAT TECHNOLOGICAL UNIVERSITY

MBA – SEMESTER 4 – EXAMINATION – SUMMER 2019

Subject Code: 2840007 **Date: 03/05/2019**

Subject Name: Management Control System

Time: 10:30 AM To 01:30 PM **Total Marks: 70**

Instructions:

1. **Attempt all questions.**
2. **Make suitable assumptions wherever necessary.**
3. **Figures to the right indicate full marks.**

Q.No. Question Text and Option **6**

Q.1 (a)

1. _________budget usually covers one year and states the revenues and expenses planned for that year.
   - A. Operating Budget
   - B. Capital Budget
   - C. Contingency Budget
   - D. All of the above
2. Which is a systematic management process?
   - A. Strategy Formulation
   - B. Strategy Planning
   - C. Budgeting
   - D All of the above
3. Which structure is not a type of organization?
   - A. Functional structure
   - B. Business unit structure
   - C. Non functional structure
   - D. Matrix structure
4. The "right or "proper" amount can be estimated with reasonable reliability is called
   - A. Engineered cost
   - B. Variable cost
   - C. Discretionary cost
   - D. Fixed cost
5. Which is not an element of control system
   - A. Detector
   - B. Assessor
   - C. Communication network
   - D. Competitor
6. _________centers are units that provide services to other responsibility centers.
   - A. Administrative centers
   - B. Support centers
   - C. Revenue centers
   - D. Expense centers

Q.1 (b) Define the terms: **04**

(i) Balanced Scorecard

(ii) Cycle time

(iii)Task control

(iv)Stock options

Q.1 (c) Explain strategic planning process. **04**

Q.2 (a) What do you understand by Management Control System? How it is differ from strategy formulation & task control. **07**

(b) "In a Goal Congruent process, the actions people are led to take in accordance with their perceived self interest are also in the best interest of the organization". Do you Agree? Justify the statement. **07**

OR

(b) How formal and informal control systems play an important role in Service and Manufacturing industries? Explain with illustrations. **07**

Q.3 **(a)** Distinguish between EVA and ROI **07**

(b) The Power light division manufactures batteries that it sells primarily to the Lantern division for inclusion with that division's main product. Last year 20% of the batteries were sold to the other companies at a price of Rs. 10 each. The remaining batteries went to the Lantern division. Cost data for the year are presented for Power Light is as under – **07**

Units Produced	5,00,000
Manufacturing Cost (Rs.)	30,00,000
Marketing cost (Rs.)	1,00,000
Administrative Costs (Rs.)	8,00,000

(i) What will be transfer price of batteries if the company uses

a) Market price?

b) Market price less Marketing cost

c) A transfer price that will yield a net income of 10% on sales for Power Light?

(ii) Prepare a schedule showing the Power Light division's net income for each of the transfer pricing alternatives computed.

OR

Q.3 **(a)** Distinguish between EVA and ROI. **07**

(b) What is transfer pricing? Can we use Two step transfer pricing method and Two sets of transfer price in firm? If yes then when we can use? **07**

Q.4 **(a)** Explain various limitations of variance analysis. **07**

(b) "People are influenced by both positive and negative incentives" Validate the statement from research findings. **07**

OR

Q.4 **(a)** Write a note on – Difficulties in implementing Performance Measurement System. **07**

(b) Explain advantages and pitfalls of strategic planning from view point of firm's management control. **07**

Q.5 Case study on Transfer Pricing based on opportunity cost **14**

	A	B	C	D
Market price per unit (Rs.)	150	146	140	130
Variable cost of production per unit (Rs.)	130	100	90	85
Labor hours required per unit	3	4	2	3

Division Z is a profit center which produces four products A, B, C and D. Each product is sold in the external market also.

Product D can be transferred to Division Y, but the maximum quantity that may be required for transfer is 2,500 units of D.

The maximum sales in the external market are:

A 2,800 units

B 2,500 units

C 2,300 units

D 1,600 units

Division Y can purchase the same product at a price of Rs.125 per unit from outside instead of receiving transfer of product D from Division Z.

Q.1 What should be the transfer price for each unit for 2,500 units of D, if the total labor hours available in Division Z are 20,000 hours?

Q.2 How to do ranking of products when availability of time is the key factor?

OR

Q.5 Case Study - Piedmont University **14**

When Hugh Scott was inaugurated as the 12th President University in 1984, the university was experiencing a financial crisis. For several years enrollments had been declining and costs had been increasing. Scott immediately instituted measures to turn the financial situation around. He rose tuition, froze faculty and staff hiring's, and curtailed operating costs. Scott was a persuasive person, and the faculty and trustees generally agreed with his actions. In the year ended June 30, 1986, there was a small operating surplus. In 1986, Scott was approached by Neil Malcom, a Piedmont alumnus and partner of a local management consulting firm, who volunteered to examine the situation and make recommendations for permanent measures to maintain the university's financial health. Scott accepted this offer.

Early in 1987, he submitted his report. It recommended increased recruiting and fund raising activities, but its most important and controversial recommendation was that the university be recognized into a set of profit centers.

At that time the principal means of financial control was an annual expenditure budget submitted by the deans of each of the schools and the administrative heads of support departments.

Piedmont University: Rough Estimates of 1986 Impact of the proposals ($ millions)

Profit Center	Revenue ($)	Expenditures ($)
Undergraduate liberal arts school	30.0	29.2
Graduate liberal arts school	5.6	11.5
Business school	15.3	12.3
Engineering school	17.0	17.3
Law School	6.7	6.5
Theological school	1.2	3.4
Unallocated revenue*	5.0	
Total academic	80.8	80.2
Other		
Central administration	10.1	10.1
Computer	3.4	3.4
Library	3.4	3.4

*Unrestricted gifts and endowment revenue, to be allocated by the president.

<u>Central Administrative Costs:</u> Currently, no university wide administrative costs were charged to academic departments. The proposal was that these costs would be allocated to profit centers in proportion to the relative costs of each.

<u>Gifts and Endowment</u>: The revenue from annual gifts would be reduced by the cost of fund – raising activities. The net amount of annual gifts plus endowment income would be allocated by the president, according to his decision on the needs of each school.

<u>Computer</u>: Students and faculty members could use them as they wished, subject to and informal check on over – use by people in the computer rooms. A few departmental mainframe computers and hundreds of microcomputers and word processor were located throughout the university, but there was no central record of how many there were. The proposal was that each user of the engineering school computers would be charged a fee based on usage. Several deans objected to this plan. They pointed out that neither students nor faculty understood the potential value of computers, and they wanted to encourage computer usage as a significant part of the educational and research experience.

<u>Library:</u> The university library was the main repository of books and other material, and there were small libraries in each of the schools. The proposal was that each student and faculty member who used the university library would be charged a fee, either on an annual basis or on some basis related to the time spent in the library or the number of books withdrawn.

<u>Cross Registration:</u> Currently, students enrolled at one school could take courses at another

school without charge. The proposal was that the school at which a course was taken would reimburse the school in which the student was enrolled. The amount charged would be the total semester tuition of the school at which the course was taken, divided by the number of courses that a student normally would take in a semester, with adjustments for variations in credit hours

Questions

1. Do you see other problems with the introduction of profit centers? If so, how u deal with would you deal with them?

2. What are the alternatives of a profit center approach?

3. Assuming that most of the issues could be resolved to your satisfaction; would you recommend that the profit center idea be adopted, rather than alternative?

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